

Mr. Dean Kiklis, Vice President of Reimbursement
Mariner Post-Acute Network
530 Stonington Road
Stonington, Connecticut 06378

Re: AC# 3-MAS-J7 – Mariner Health Care of Seneca

Dear Mr. Kiklis:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**MARINER HEALTH CARE OF SENECA
SENECA, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-MAS-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 21, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Mariner Health Care of Seneca, for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Mariner Health Care of Seneca, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Mariner Health Care of Seneca dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
January 21, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MARINER HEALTH CARE OF SENECA
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-MAS-J7

	10/01/98- <u>11/30/98</u>	12/01/98- <u>09/30/99</u>
Interim reimbursement rate (1)	\$102.62	\$103.37
Adjusted reimbursement rate	<u>98.58</u>	<u>99.33</u>
Decrease in reimbursement rate	\$ <u><u>4.04</u></u>	\$ <u><u>4.04</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

MARINER HEALTH CARE OF SENECA
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-MAS-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.92	\$52.05	
Dietary		10.09	9.44	
Laundry/Housekeeping/Maint.		<u>8.55</u>	<u>7.70</u>	
Subtotal	\$ <u>4.84</u>	65.56	69.19	\$65.56
Administration & Med. Rec.	\$ <u>-</u>	<u>14.73</u>	<u>10.38</u>	<u>10.38</u>
Subtotal		80.29	<u>\$79.57</u>	75.94
<u>Costs Not Subject to Standards:</u>				
Utilities		2.73		2.73
Special Services		1.07		1.07
Medical Supplies & Oxygen		3.98		3.98
Taxes and Insurance		1.45		1.45
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$89.52</u>		85.17
Inflation Factor (3.60%)				3.07
Cost of Capital				8.34
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.84
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.09)
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$98.58</u>

MARINER HEALTH CARE OF SENECA

Computation of Adjusted Reimbursement Rate

For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-MAS-J7

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Cost of Capital				8.34
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.84
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.09)
Minimum Wage & CNA Add-Ons				<u>1.00</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$99.33</u>

MARINER HEALTH CARE OF SENECA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MAS-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,622,306	\$ -	\$192,029(2) 14,674(2) 3,629(3) 209,745(5)	\$2,202,229
Dietary	496,107	-	22,520(2)	473,587
Laundry	113,830	-	7,665(2)	106,165
Housekeeping	170,890	-	12,403(2)	158,487
Maintenance	142,783	2,912(3)	6,822(2) 2,208(5)	136,665
Administration & Medical Records	710,291	10,720(3)	22,932(2) 1,718(2) 5,096(5)	691,265
Utilities	156,182	-	1,069(3) 27,217(4)	127,896
Special Services	50,047	-	9(2)	50,038
Medical Supplies & Oxygen	188,591	-	1,023(2) 841(5)	186,727
Taxes & Insurance	69,458	-	1,358(3)	68,100
Legal Fees	-	-	-	-

MARINER HEALTH CARE OF SENECA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MAS-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	454,276	8,948(6)	1,794(1) <u>70,174(3)</u>	391,256
Subtotal	5,174,761	22,580	604,926	4,592,415
Ancillary	88,881	-	-	88,881
Non-Allowable	653,882	1,794(1) 281,795(2) 62,598(3) <u>217,890(5)</u>	8,948(6) <u>-</u>	1,209,011 <u>-</u>
Total Operating Expenses	<u>\$5,917,524</u>	<u>\$586,657</u>	<u>\$613,874</u>	<u>\$5,890,307</u>
TOTAL PATIENT DAYS	<u>46,931</u>	<u>-</u>	<u>-</u>	<u>46,931</u>
TOTAL BEDS	<u>132</u>			

MARINER HEALTH CARE OF SENECA
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MAS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 419,604	
	Nonallowable	1,794	
	Accumulated Depreciation		\$ 353,454
	Other Equity		66,150
	Cost of Capital		1,794
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	281,795	
	Nursing		192,029
	Restorative		14,674
	Dietary		22,520
	Laundry		7,665
	Housekeeping		12,403
	Maintenance		6,822
	Administration		22,932
	Medical Records		1,718
	Medical Supplies		1,023
	Special Services		9
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Maintenance	2,912	
	Administration	10,720	
	Nonallowable	62,598	
	Nursing		3,629
	Utilities		1,069
	Taxes and Insurance		1,358
	Cost of Capital		70,174
	To adjust home office cost allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Other Income	27,217	
	Utilities		27,217
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		

MARINER HEALTH CARE OF SENECA
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MAS-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	217,890	
	Nursing		209,745
	Maintenance		2,208
	Administration		5,096
	Medical Supplies		841
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
6	Cost of Capital	8,948	
	Nonallowable		8,948
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,033,478</u>	<u>\$1,033,478</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MARINER HEALTH CARE OF SENECA
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MAS-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>132</u>
Deemed Asset Value	4,497,108
Improvements Since 1981	946,957
Accumulated Depreciation at 9/30/97	<u>(1,556,492)</u>
Deemed Depreciated Value	3,887,573
Market Rate of Return	<u>0.067</u>
Total Annual Return	260,467
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	260,467
Depreciation Expense	135,079
Amortization Expense	8,033
Capital Related Income Offsets	(12,323)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	391,256
Total Patient Days (Minimum 97% Occupancy)	<u>46,931</u>
Cost of Capital Per Diem	\$ <u><u>8.34</u></u>

MARINER HEALTH CARE OF SENECA
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MAS-J7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.04
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$11.03</u>
Reimbursable Cost of Capital Per Diem	\$ 8.34
Cost of Capital Per Diem	<u>8.34</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>